

Message Text

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PAGE 01 JIDDA 01176 221754 Z

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 3541

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FOR NEA/ ARP FROM AMBASSADOR

E. O. 11652: GDS

TAGS: K MASS, SA

SUBJ: NORTHROP CLAIM FOR REIMBURSEMENT OF KHASHOGGI FEES
ON PEACE HAWK

REF: WRAMPMEIER- HORAN LETTER MARCH 14

1. WE SHARE YOUR CONCERN RE DIFFICULT PROBLEM PRESENTED BY KHASHOGGI' S \$3.5 MILLION CLAIM FOR AGENCY FEE. FOLLOW-ING INFO AND COMMENT PROVIDED IN HOPE IT MAY BE HELPFUL TO DEPT IN DEALING WITH THIS MATTER.
2. CERTAINLY AMB WAS LEFT WITH CLEAR IMPRESSION FROM CON-VERSATION WITH NORTHROP VP GONZALES IN SUMMER 1971 THAT GOVT- TO- GOVT CONTRACTS WERE NOT RPT NOT SUBJECT NORTHROP' S AGREEMENTS WITH KHASHOGGI. GONZALES STATED THAT IF F-5 SALE WAS ULTIMATELY CONTRACTOR- TO- GOVT THEN KHASHOGGI WOULD BE ENTITLED TO FEE. IF NOT, THEN HE ENTITLED TO RELATIVELY MODEST SERVICE FEE ABOUT \$20,000 PER MONTH.
3. PERHAPS POINT COULD BE MADE TO NORTHROP THAT AN EN-DEAVOR BY USG PRESENT THIS BILL TO SAG AND PRESS FOR ITS PAYMENT MIGHT DAMAGE NORTHROP PROSPECTS FOR OBTAIN-ING FURTHER BUSINESS IN SAUDI ARABIA, AND COULD CREATE VERY UNFAVORABLE IMPRESSION IN KING' S MIND. KING, AS WE
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PAGE 02 JIDDA 01176 221754 Z

KNOW, IS HIGHLY ALLERGIC TO KHASHOGGI AND TO THE LARGE FEES WHICH HE HAS LEVIED ON ARMS TRANSACTIONS. WE WOULD HOPE NORTHROP WOULD RECOGNIZE THAT TURNING DOWN KHASHOGGI MUCH LESS RISK THAN THAT OF ANTAGONIZING SAG -- WITH POSSIBLE CONSEQUENCE, FOR EXAMPLE, LESSENING NORTHROP PROSPECTS FOR SELLING SAUDIS THE FOLLOW- ON AIRCRAFT TO BRITISH LIGHTNING, A GOAL WHICH COMPANY CAN REASONABLY HOPE FOR IF IT SUCCEEDS WITH F-5' S.

3. WE CONCERNED ALSO THAT USG BONA FIDES MIGHT DOME IN QUESTION. WE AFRAID THAT NO EXPLANATIONS TO SAUDIS AS TO KHASHOGGI ENTITLEMENT UNDER USG CONTRACTING PROCEDURES COULD SERVE DISPEL IMPRESSION THAT CONTRARY SULTAN' S AND KING' S WISHES WE WERE FLOUTING ONE OF MOST IMPORTANT OBJECTIVES THEY HAD IN MIND IN SEEKING INITIALLY TO PUT CONTRACT ON GOVT- TO- GOVT BASIS.

4. COULD DOD LAWYERS SEARCH FOR POSSIBLE LEGAL JUSTIFICATIONS FOR TURNING DOWN NORTHROP REQUEST? FOR EXAMPLE, WE WONDER FOR WHAT ACTUAL SERVICES IS KHASHOGGI BEING REIMBURSED? HE CERTAINLY PLAYED NO RPT NO VISIBLE ROLE AT ALL IN NEGOTIATIONS WHICH WERE CARRIED OUT EXCLUSIVELY BETWEEN NORTHROP, USG REPS AND SAG. IT HAD BEEN OUR IMPRESSION THAT TWO PERCENT CHARGE WOULD BE FOR REIMBURSEMENT GENERAL SALES COSTS AND WE CAN WELL UNDERSTAND THAT NORTHROP MAY HAVE EXPENDED CONSIDERABLE SUMS IN PREPARING BROCHURES, PROVIDING BRIEFINGS AND DEMONSTRATIONS TO RSAF OFFICERS, ETC. MOREOVER, IS THERE NOT QUESTION OF WHY COMPANY SHOULD AT THIS LATE DATE BE PRESENTING ENORMOUS CLAIM WHICH NOT PREVIOUSLY INCLUDED IN SUMS REQUESTED OF SAG? DOES NORTHROP WANT US TO INTERPOSE THIS DEMAND, WHEN, AS WE UNDERSTAND IT, SAUDIS ARE ALREADY SOMEWHAT DILATORY IN CURRENT PAYMENTS? (WE HAVE NOT HAD CHANCE RECENTLY CHECK THIS OUT WITH USMTM, HOWEVER.)

5. WE WONDER WHETHER NORTHROP MAY BE ENGAGED IN EXERCISE WHEREBY IT SEEKS RELIEVE ITSELF OF EMBARRASSING SIUTATION WITH KHASHOGGI BY ASKING USG PROVIDE BASIS FOR TURNDOWN OF CLAIM. THUS WE HOPE VERY MUCH IT CAN BE DETERMINED USG SHOULD REFRAIN FROM PRESENTING BILL TO SAG FOR KHASHOGGI. WOULD BE HAPPY ENDEAVOR SUPPLY ANY FURTHER INFORMATION
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PAGE 03 JIDDA 01176 221754 Z

OR OPINION WHICH YOU THINK MIGHT BE NEEDED FOR RESOLVING

MATTER SATISFACTORILY.
THACHER

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